

CONTENTS

Item 1 — Cover Page.....	1
Item 2 — Material Changes.....	2
Item 3 — Table of Contents.....	3
Item 4 — Advisory Business.....	4
Item 5 — Fees and Compensation....	5
Item 6 — Performance-Based Fees and Side-By-Side Management.....	8
Item 7 — Types of Clients.....	8
Item 8 — Methods of Analysis, Investment Strategies, and Risk of Loss.....	8
Item 9 — Disciplinary Information.....	9
Item 10 — Other Financial Industry Activities and Affiliations.....	9
Item 11 — Code of Ethics.....	10
Item 12 — Brokerage Practices.....	11
Item 13 — Review of Accounts.....	14
Item 14 — Client Referrals and Other Compensation.....	15
Item 15 — Custody.....	15
Item 16 — Investment Discretion...	15
Item 17 — Voting Client Securities.....	16
Item 18 — Financial Information...	16
Item 19 — Miscellaneous.....	16
♦ Cost Basis Reporting.....	16
♦ Notifications of additions or Withdrawals.....	16
♦ Privacy Policy.....	17

ITEM 1 — COVER PAGE

KAYNE ANDERSON RUDNICK INVESTMENT MANAGEMENT, LLC

1800 Avenue of the Stars, Second Floor
Los Angeles, CA 90067
(877) 308-6988
www.kayne.com

March 30, 2012

This Brochure provides information about the qualifications and business practices of Kayne Anderson Rudnick Investment Management, LLC (“Kayne Anderson Rudnick”). If you have any questions about the contents of this Brochure, please contact us at (877) 308-6988 and/or info@kayne.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Kayne Anderson Rudnick is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information you may use to determine whether to hire or retain an Adviser.

Additional information about Kayne Anderson Rudnick is also available on the SEC’s website at www.adviserinfo.sec.gov.

ITEM 2 — MATERIAL CHANGES

On February 14, 2012, we adopted a Code of Ethics similar to that of our parent company, Virtus Investment Partners, Inc. We do not view the adoption of this Code of Ethics as a material change from our last annual update, dated March 15, 2011.

Under item 8, we added three new investment strategies: Large Cap Sustainable Growth, Mid Cap Sustainable Growth, and International Small Cap. We also removed the Large Cap Core strategy.

In the past, we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, you will receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year, which is 12/31. We may further provide other ongoing disclosure information about material changes as necessary.

We will provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, you may request our Brochure by contacting Judith Ridder at (310) 712-2909 or jridder@kayne.com. Our Brochure is available on our website, www.kayne.com, and also free of charge upon request.

Additional information about Kayne Anderson Rudnick is also available via the SEC's website, www.adviserinfo.sec.gov. The SEC's website also provides information about any persons affiliated with Kayne Anderson Rudnick who are registered, or are required to be registered, as investment adviser representatives of Kayne Anderson Rudnick.

ITEM 3 — TABLE OF CONTENTS

Item 1 — Cover Page.....	1
Item 2 — Material Changes.....	2
Item 3 — Table of Contents.....	3
Item 4 — Advisory Business.....	4
Item 5 — Fees and Compensation.....	5
Item 6 — Performance-Based Fees and Side-By-Side Management.....	8
Item 7 — Types of Clients.....	8
Item 8 — Methods of Analysis, Investment Strategies, and Risk of Loss.....	8
Item 9 — Disciplinary Information.....	9
Item 10 — Other Financial Industry Activities and Affiliations.....	9
Item 11 — Code of Ethics.....	10
Item 12 — Brokerage Practices.....	11
Item 13 — Review of Accounts.....	14
Item 14 — Client Referrals and Other Compensation.....	15
Item 15 — Custody.....	15
Item 16 — Investment Discretion.....	15
Item 17 — Voting Client Securities.....	16
Item 18 — Financial Information.....	16
Item 19 — Miscellaneous.....	16
♦ Cost Basis Reporting.....	16
♦ Notifications of additions or Withdrawals.....	16
♦ Privacy Policy.....	17

ITEM 4 — ADVISORY BUSINESS

Kayne Anderson Rudnick Investment Management, LLC (“Kayne Anderson Rudnick”) is 100% owned by Virtus Investment Partners, Inc., a publicly traded multi-manager asset management business, as of December 31, 2008 (NASDAQ: VRTS). Kayne Anderson Rudnick has acted as an investment advisor for over 25 years, and has been an SEC registered investment adviser since 1985.

Kayne Anderson Rudnick provides investment services and manages investment advisory accounts for individuals, trusts, estates, charitable organizations and endowments, professional and religious organizations, corporations and other commercial entities, pension and profit-sharing plans, insurers, banks and thrifts, family offices, private pooled funds, open-end investment companies, closed-end funds and collective investment trusts and registered investment advisers. These services are tailored to the needs and investment guidelines of each client. Client guidelines may include, but are not limited to, risk tolerance, security, type of security or industry restrictions, and cash or income requirements. In addition, Kayne Anderson Rudnick provides investment advisory services for accounts either (i) established directly with the client or (ii) introduced through wrap fee programs of other financial-services firms, such as broker-dealers, registered investment advisers, and other intermediaries.

ADVISORY SERVICES — INSTITUTIONAL

- Kayne Anderson Rudnick provides investment services and manages investment advisory accounts for corporations and other commercial entities, charitable organizations and endowments, family offices, professional and religious organizations, pension and profit-sharing plans, insurers, banks and thrifts, and open-end investment companies. Kayne Anderson Rudnick manages these accounts subject to each client’s risk profile and investment guidelines.

ADVISORY SERVICES — MUTUAL FUNDS

- Kayne Anderson Rudnick provides investment management services as a sub-adviser under a sub-advisory agreement with Virtus Investment Advisers, an affiliate, to the following portfolios: Virtus Small-Cap Core Fund, Virtus Small-Cap Sustainable Growth Fund, Virtus Quality Small-Cap Fund, Virtus Mid-Cap Core Fund, Virtus Quality Large-Cap Value Fund, Virtus Small-Cap Growth Series, Virtus Small-Cap Value Series, Virtus Strategic Growth Fund, and Virtus Mid Cap Growth Fund. These Funds are affiliated with Kayne Anderson Rudnick.

Kayne Anderson Rudnick provides investment management services as a sub adviser to a non-affiliated mutual fund.

ADVISORY SERVICES — WRAP PROGRAMS

- In wrap fee accounts, Kayne Anderson Rudnick is chosen by the client to act as an investment adviser through a selection process administered by the wrap sponsor. The client information compiled through the selection process enables Kayne Anderson Rudnick to provide individualized investment services, which it maintains through ongoing contact with the wrap sponsor. Kayne Anderson Rudnick is available for direct telephone conversations with wrap

clients at their request and, periodically, at the discretion of the wrap sponsor.

Kayne Anderson Rudnick serves as investment adviser under certain wrap programs and as investment sub-adviser under other wrap programs, and may act in both capacities under different programs sponsored by the same financial-services firm. Wrap program sponsors typically offer comprehensive brokerage, custodial, and advisory services for a single “wrap fee,” based on a percentage of assets under management. The wrap sponsor pays Kayne Anderson Rudnick a portion of the wrap fee in connection with the advisory services it provides. Under some arrangements, the wrap sponsor and Kayne Anderson Rudnick each charge a separate fee for their respective services. The wrap sponsor’s services generally include, in addition to assistance with the selection of one or more investment advisers, asset allocation advice, execution of portfolio transactions (free of commissions), custodial services, including trade confirmation and periodic reporting, continuing evaluation of investment performance, and consultation on investment objectives and suitability.

Wrap account clients generally may only invest in Kayne Anderson Rudnick’s model strategies. Non-wrap clients may also invest in Kayne Anderson Rudnick’s model strategies. The model strategies that are generated for each investment strategy are implemented across all client accounts, wrap and non-wrap clients. Deviation from the model portfolio may occur to accommodate specific investment guidelines of an individual client.

Each client should evaluate whether a given wrap program is suitable for his or her needs. The client should consider, depending upon the level of the single fee charged under a wrap program, the package of services provided. Based upon the amount of portfolio activity in the account and the value of custodial and portfolio monitoring services, the single fee may be higher or lower than the total cost of all services the client is receiving were he or she to pay for each service separately.

ADVISORY SERVICES — MODEL PORTFOLIOS

- Kayne Anderson Rudnick provides investment advisory services, as sub-adviser or model provider, to investment advisers that seek specific securities-related advice and recommendations. The advice and recommendations are provided through the development of model portfolios. Kayne Anderson Rudnick does not enter into a direct relationship with the clients of these investment advisers and does not provide administrative portfolio account or account-specific performance reporting services to those clients. Kayne Anderson Rudnick typically provides periodic market commentary and information relating to the performance of its models to these investment advisers, but does not initiate any trading in the model portfolios to these investment advisers. However, at the direction of these investment advisers, Kayne Anderson Rudnick can implement trading in these model portfolios. Kayne Anderson Rudnick recommendations that are provided to investment advisers are used by such investment advisers in their sole discretion. It is at the investment adviser’s discretion whether or not and to what extent to implement the model portfolio or each recommendation.

Kayne Anderson Rudnick participates in a limited number of arrangements where it receives a model portfolio and will exercise investment discretion. It is at Kayne Anderson Rudnick's discretion whether or not and to what extent to implement the model portfolio or each recommendation. Kayne Anderson Rudnick utilizes these model portfolios primarily in its Wealth Advisors division. Kayne Anderson Rudnick's international assets are sub-advised by Pyrford International, a registered investment advisory firm.

ADVISORY SERVICES — PRIVATE CLIENTS

- Kayne Anderson Rudnick Wealth Advisors ("KARWA"), a division of Kayne Anderson Rudnick Investment Management, LLC, provides investment advice to high-net-worth clients and makes investments for high-net-worth clients based on the individual needs of the client. Through personal discussions in which goals and objectives based on a client's particular circumstances are established, KARWA utilizes an asset allocation model and manages the client's portfolio based on that model.

KARWA WEALTH ADVISORY CLIENT

- For each Wealth Advisory Client, KARWA creates a portfolio consisting of one or more of the following: Individually managed securities managed by Kayne Anderson Rudnick or a designated sub-adviser, mutual funds managed by Kayne Anderson Rudnick, mutual funds affiliated with Kayne Anderson Rudnick, non-affiliated mutual funds, exchange traded funds, limited partnerships, structured notes, or a combination of the aforementioned.

KARWA INVESTMENT ADVISORY CLIENT

- For each KARWA Investment Advisory Client, KARWA creates a portfolio generally consisting of one of the following: Individually managed securities mutual funds managed by Kayne Anderson Rudnick, mutual funds affiliated with Kayne Anderson Rudnick, non-affiliated mutual funds, exchange traded funds, limited partnerships, and structured notes.

ADVISORY SERVICES — OTHER

- Under certain circumstances, a client of Kayne Anderson Rudnick requests that Kayne Anderson Rudnick trade a security categorized as an "unsupervised asset." An unsupervised asset is an asset managed by Kayne Anderson Rudnick's client. As an accommodation to the client on a best efforts basis, Kayne Anderson Rudnick trades these securities.

TYPES OF INVESTMENTS

- Kayne Anderson Rudnick may offer investment advice on the following types of instruments: Equity securities (common stocks and equivalents) including exchange-listed securities, securities traded over-the-counter, foreign issues, warrants, corporate debt securities (other than commercial paper), certificates of deposit, municipal securities, investment company securities, including traditional mutual fund shares and exchange traded funds, and United States government securities. Kayne Anderson Rudnick may also offer investment advice, where appropriate, on options contracts on securities, futures contracts on intangibles, and interests in partnerships investing in real estate and oil and gas interests.

ASSETS UNDER MANAGEMENT

- As of February 29, 2012, the total assets under management amounted to \$6,580,944,140. Approximately \$6,270,517,645 was managed on a discretionary basis and \$310,426,495 was managed on a non-discretionary basis.

ITEM 5 — FEES AND COMPENSATION

This section describes Kayne Anderson Rudnick's basic fee schedules, however, fees may be negotiable where special circumstances prevail, and arrangements with any particular client may vary. Kayne Anderson Rudnick may group multiple accounts of one client relationship together for purposes of calculating the fee, or Kayne Anderson Rudnick may not charge a fee to small accounts of a client because of the fee the client is paying on the total relationship. Kayne Anderson Rudnick reserves the right to negotiate fees with clients, and may charge higher or lower fees than those described. Kayne Anderson Rudnick believes that its fees are competitive with those charged by other investment advisers for comparable services; however, similar services may be available from another source for fees below those charged by Kayne Anderson Rudnick.

The specific manner in which fees are charged is established in a client's written agreement with Kayne Anderson Rudnick. Clients may elect to be billed directly for fees or to authorize Kayne Anderson Rudnick to directly debit fees from client accounts. Accounts are normally charged a management fee based on the amount of assets under management. Fees normally are payable quarterly in advance based on the fair market value of the account as of the last day of the prior period or, in limited cases, in arrears based on a three-month average of fair market value of the account, or in arrears based on the fair market value of the account on the last day of the period. A limited number of Kayne Anderson Rudnick's direct accounts are charged a fixed fee.

A client may terminate Kayne Anderson Rudnick's investment advisory contract upon written notice at any time and receive a pro-rata refund of fees paid in advance. A termination fee may be applicable, as discussed in specific fee schedules. At termination, Kayne Anderson Rudnick liquidates the client portfolio if directed by the client. In some cases, particularly in portfolios holding small-cap securities or certain fixed-income securities, the liquidation of such positions may require an extended period of time.

Kayne Anderson Rudnick's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third-party investment and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds, ETFs, and Alternative Investments bear their own operating expenses, including compensation paid to their advisers and other service providers as well as other expenses and fees. This information is disclosed in a fund's prospectus or offering documents.

Item 12, Brokerage Practices further describes the factors that Kayne Anderson Rudnick considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

ADVISORY FEES — INSTITUTIONAL

Annual fee schedule for Institutional accounts

Minimum relationship size: \$5 million

U.S. LARGE CAP EQUITY	U.S. MID CAP EQUITY	U.S. SMALL-MID CAP EQUITY	U.S. SMALL CAP EQUITY
0.70% on the first \$10 million 0.50% on the next \$30 million 0.40% on the next \$60 million 0.35% on the balance	0.75% on the first \$25 million 0.65% on the next \$25 million 0.55% on the next \$50 million 0.50% on the balance	0.85% on the first \$25 million 0.70% on the next \$25 million 0.60% on the next \$50 million 0.50% on the balance	1.00% on the first \$25 million 0.80% on the next \$25 million 0.70% on the balance

KAR SMALL CAP QUALITY SELECT
1.25% for all asset amounts

ADVISORY FEES — MUTUAL FUNDS

Kayne Anderson Rudnick generally receives an annual management fee ranging from 0.375% to 0.45% (37.5 basis points to 45 basis points) of the market value under management for sub-advising affiliated mutual funds.

ADVISORY FEES — WRAP PROGRAMS

Where Kayne Anderson Rudnick serves as a wrap investment adviser, it contracts separately with each participating client and generally provides the same record-keeping and reporting services as it provides to direct fee clients. In such cases, Kayne Anderson Rudnick’s fee is generally paid directly by the client or authorized by the client for payment directly from the client’s account at fees generally ranging from 0.25% to 1.00% (25 basis points to 100 basis points) per annum of the market value of the client’s account.

When Kayne Anderson Rudnick serves as a wrap investment sub-adviser, it contracts with the wrap sponsor for its services rather than the clients of the wrap sponsor. The wrap sponsor serves as a master investment adviser and is responsible for much of the client record-keeping and reporting. The management fees payable to Kayne Anderson Rudnick as investment sub-adviser are generally lower than those paid to Kayne Anderson Rudnick as investment adviser, reflecting that some of the services it would otherwise provide are provided instead by the program sponsor in its capacity as master

investment adviser. The fees paid to Kayne Anderson Rudnick when Kayne Anderson Rudnick serves as a wrap investment sub-adviser by the wrap sponsor generally range from 0.25% to 0.75% (25 basis points to 75 basis points) per annum of the market value of the client’s account.

ADVISORY FEES — MODEL PORTFOLIOS

Kayne Anderson Rudnick provides investment advisory services, as sub-adviser, to investment advisers that seek specific securities-related advice and recommendations. The advice and recommendations are provided through the development of model portfolios. Kayne Anderson Rudnick generally receives an annual management fee ranging from 0.30% to 0.45% (30 basis points to 45 basis points) of the market value under management for these model portfolios.

ADVISORY FEES — PRIVATE CLIENTS

KARWA Wealth Advisory Client

KAYNE ANDERSON RUDNICK WEALTH ADVISORS — WEALTH ADVISORY CLIENT FEE SCHEDULE

Minimum relationship size: \$1 million

Minimum Fee: The minimum annual fee per relationship is \$8,000. Relationships below the annual minimum will be billed \$2,000 on a quarterly basis.

ASSETS UNDER ADVISEMENT	ANNUAL FEE
First \$3 million	1.00%
Next \$2 million	0.80%
Next \$5 million	0.70%
Additional Assets	0.60%

Additional Fees:**Separately Managed Account Fee:**

Separately Managed Accounts are defined as individually managed securities in strategies managed by the Adviser or individually managed securities in strategies sub-advised by the Adviser.

For clients with separately managed accounts, an additional fee of 0.30% (30 basis points) per annum will be assessed on those assets, with the exception of Kayne Anderson Rudnick Small Cap Quality Select separately managed accounts, which will be charged an additional fee of 1.25% (125 basis points) per annum on those assets. The Client may receive two invoices for the services provided: (1) the Wealth Advisory Service fee invoice, and (2) for clients who are invested in separately managed accounts, a Separately Managed Account fee invoice.

Proprietary and Affiliated Mutual Fund Fees:

Accounts may be invested in mutual funds managed by the Adviser, such as, Virtus Small-Cap Core Fund, Virtus Small-Cap Sustainable Growth Fund, Virtus Quality Small-Cap Fund, Virtus Mid-Cap Core Fund, Virtus Quality Large-Cap Value Fund, Virtus Small-Cap Growth Series, Virtus Small-Cap Value Series, Virtus Strategic Growth Fund, and Virtus Mid Cap Growth Fund. The Adviser generally receives an annual management fee ranging from approximately 0.36% to 0.45% (36.0 basis points to 45 basis points) of the market value under management for these Funds.

KARWA Investment Advisory Client**KAYNE ANDERSON RUDNICK WEALTH ADVISORS — INVESTMENT ADVISORY FEE SCHEDULE**

Minimum relationship size: \$1 million

Minimum Fee: The minimum annual fee per relationship is \$8,000. Relationships below the annual minimum will be billed \$2,000 on a quarterly basis.

EQUITY*

1.00% on the first \$5 million
0.85% on the next \$5 million
0.75% on the next \$10 million
0.60% on the balance

FIXED INCOME

0.50% on the first \$5 million
0.35% on the next \$5 million
0.25% on the balance

CASH MANAGEMENT

0.25% for all asset amounts

*The fee schedule for Kayne Anderson Rudnick Small Cap Quality Select is 1.25% on all asset amounts.

ADVISORY FEES — OTHER

Kayne Anderson Rudnick may charge the client a fee for buying or selling an “unsupervised asset.” Client account statements normally include the unsupervised asset, but these assets are not included in the account fee calculations or performance.

ITEM 6 — PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

Kayne Anderson Rudnick does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

ITEM 7 — TYPES OF CLIENTS

Kayne Anderson Rudnick provides investment services and manages investment advisory accounts for individuals, trusts, estates, charitable organizations and endowments, professional and religious organizations, corporations and other commercial entities, pension and profit-sharing plans, insurers, banks and thrifts, family offices, private pooled funds, open-end investment companies, and registered investment advisers.

Kayne Anderson Rudnick serves as investment adviser under certain wrap programs, as investment sub-adviser under other wrap programs, and may act in both capacities under different programs sponsored by the same financial-services firm.

The minimum size of an institutional account is \$5 million. The minimum size of a private client account is \$1 million. The minimum amount of assets for wrap program accounts may range from \$50,000 to \$250,000, depending on the wrap program and the investment strategy of the account. Kayne Anderson Rudnick may accept or continue to provide services to smaller accounts at its discretion.

ITEM 8 — METHODS OF ANALYSIS, INVESTMENT STRATEGIES, AND RISK OF LOSS

Kayne Anderson Rudnick provides investment services. Kayne Anderson Rudnick’s security analysis methods include business, financial, and valuation analysis. Sources of information used by Kayne Anderson Rudnick include financial newspapers and magazines, inspections of corporate activities, research materials prepared by others, corporate rating services, annual reports, prospectuses, filings with the Securities and Exchange Commission, company press releases, and other sources. Investment strategies employed include long-term and short-term purchases.

Kayne Anderson Rudnick relies primarily on internally generated research when making investment decisions. Kayne Anderson Rudnick’s principal sources of information include the public filings

of issuers with governmental authorities; issuers’ annual reports to stockholders; industry data; interactions with management via the telephone or the web; and where appropriate and feasible, company visits and conversations with suppliers and competitors. In addition, trade publications and statistical material are furnished by outside vendors. Kayne Anderson Rudnick also considers research furnished by broker-dealers and other industry members.

Kayne Anderson Rudnick invests principally in “traditional” equity securities (common stocks and equivalents) traded on or in a recognized exchange or market. It uses a disciplined investment process to identify high-quality companies available at reasonable prices. This process focuses on consistently growing, highly profitable; low-debt companies with rising cash flows, and also considers strength of management and relative competitive position. Kayne Anderson Rudnick’s principal portfolio strategies include large-cap equities and small to mid-cap equities. Kayne Anderson Rudnick also offers other, more specialized or concentrated equity strategies. Although Kayne Anderson Rudnick invests strictly in high-quality securities, there are special risks inherent in investments in small-cap and foreign companies not applicable to domestic large-cap companies. These include, among others, reduced liquidity and currency exchange rate risk.

Kayne Anderson Rudnick also invests in an array of high-quality, fixed-income securities that focus on intermediate-term bonds. Kayne Anderson Rudnick offers both taxable and tax-free fixed-income strategies. Additionally, Kayne Anderson Rudnick offers cash management services.

SIGNIFICANT INVESTMENT STRATEGIES**SMALL CAP QUALITY VALUE:**

This strategy pursues long-term capital appreciation in the small-cap sector while seeking to provide the risk characteristics of the less volatile large-cap S&P 500® Index. The strategy invests in a select group of small-cap value companies believed to be undervalued relative to their future growth potential. The investment strategy emphasizes companies Kayne Anderson Rudnick believes to have a competitive advantage, strong management, and low financial risk and to be able to grow over market cycles, despite their discounted valuations.

SMALL CAP CORE:

This strategy pursues long-term capital appreciation in the small-cap sector while seeking to provide the risk characteristics of the less volatile large-cap S&P 500® Index. The strategy invests in a select group of small-cap companies believed to be undervalued relative to their future growth potential. The investment strategy emphasizes companies Kayne Anderson Rudnick believes to have a competitive advantage, strong management, and low financial risk and to be able to grow over market cycles, despite their discounted valuations.

SMALL CAP SUSTAINABLE GROWTH:

This strategy pursues long-term capital appreciation in the small-cap sector while seeking to provide the risk characteristics of the less volatile large-cap S&P 500® Index. The strategy invests in a select group of small-cap growth companies believed to be undervalued relative to their future growth potential. The investment strategy emphasizes companies assessed by Kayne Anderson Rudnick as having a competitive advantage, strong management, and low financial risk and is able to grow over market cycles, despite their discounted valuations.

MID CAP CORE:

This strategy pursues long-term capital appreciation in the mid-cap sector while seeking to provide the risk characteristics of the less volatile large-cap S&P 500® Index. The strategy invests in a select group of mid-cap companies believed to be undervalued relative to their future growth potential. The investment strategy emphasizes companies believed by Kayne Anderson Rudnick to have a competitive advantage, strong management, and low financial risk and to be able to grow over market cycles, despite their discounted valuations.

MID CAP SUSTAINABLE GROWTH:

This strategy pursues long-term capital appreciation in the mid-cap sector while seeking to provide a lower risk profile than the Index over a complete market cycle. The strategy invests in a select group of mid-cap growth companies with business models that possess competitive advantages and characteristics that create sustainable growth potential. The investment strategy emphasizes companies assessed by Kayne Anderson Rudnick as having a competitive advantage, strong management, and low financial risk and we seek to purchase these businesses at reasonable valuations.

LARGE CAP QUALITY VALUE:

This strategy invests in a select group of large-cap value companies believed to be undervalued relative to their future growth potential. The investment strategy emphasizes companies Kayne Anderson Rudnick believes to have a competitive advantage, strong management, and low financial risk and to be able to grow over market cycles, despite their discounted valuations.

LARGE CAP SUSTAINABLE GROWTH:

This strategy pursues long-term capital appreciation in the large-cap sector while seeking to provide a lower risk profile than the Index over a complete market cycle. The strategy invests in a select group of large-cap growth companies with business models that possess competitive advantages and characteristics that create sustainable growth potential. The investment strategy emphasizes companies assessed by Kayne Anderson Rudnick as having a competitive advantage, strong management, and low financial risk and we seek to purchase these businesses at reasonable valuations.

INTERNATIONAL SMALL CAP:

This strategy pursues long-term capital appreciation in the small-cap sector while seeking to provide a lower risk profile than the Index over a complete market cycle. The strategy invests in a select group of small-cap companies located globally excluding the United States

that are believed to be undervalued relative to their future growth potential. The investment strategy emphasizes companies that Kayne Anderson Rudnick believes to have a competitive advantage, strong management, and low financial risk that can grow over market cycles despite their discounted valuations.

CALIFORNIA MUNICIPAL:

This strategy seeks current income free from federal and state income taxes by investing in municipal bonds issued in the state of California. The management team focuses on high-quality California tax-exempt municipal bonds, gauging the value of a security by issue type, credit quality, and bond structure.

INTERMEDIATE TOTAL RETURN:

This strategy seeks high total return by investing in a diversified portfolio of primarily intermediate, high-quality bonds, including corporate, mortgage and asset-backed securities. The strategy employs a value-oriented approach seeking to capitalize on individual issues and sectors that appear to offer the best value. It also seeks to add value through interest-rate anticipation.

Please remember investing in securities generally involves risk of loss that clients should be prepared to bear.

ITEM 9 — DISCIPLINARY INFORMATION

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Kayne Anderson Rudnick or the integrity of Kayne Anderson Rudnick's management. Kayne Anderson Rudnick has no disciplinary information to report.

ITEM 10 — OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Kayne Anderson Rudnick is wholly owned by Virtus Partners, Inc. ("VP"). Virtus Partners, Inc. is a legal entity and an indirect wholly owned subsidiary of Virtus Investment Partners, Inc. ("VRTS"). Kayne Anderson Rudnick is associated with investment companies offered by the Virtus family of funds, which are advised and sub-advised by both affiliated and non-affiliated investment advisers.

VP directly owns the following investment advisers:

1. Kayne Anderson Rudnick Investment Management, LLC, Registrant
2. Duff & Phelps Investment Management Co.
3. Euclid Advisors, LLC
4. Zweig Advisers, LLC
5. Newfleet Asset Management, Inc.
6. Virtus Alternative Investment Advisers, Inc

VP indirectly owns the following investment advisers:

1. Virtus Investment Advisers, Inc.

VP also owns VP Distributors, Inc., a registered broker-dealer that serves as the underwriter and distributor of certain registered investment companies in the Virtus family of funds, of which certain funds are sub-advised by Kayne Anderson Rudnick. Certain of Kayne Anderson Rudnick's employees maintain securities licenses with VP Distributors, Inc.

In a variety of instances, Kayne Anderson Rudnick may utilize the personnel and/or services of one or more of its affiliates, and the affiliates may utilize the personnel and/or services of Kayne Anderson Rudnick in the performance of Kayne Anderson Rudnick's business including, without limitation, investment advice, portfolio execution and trading, back-office processing, accounting, reporting, and client servicing. Such utilization may take a variety of forms including dual employee or delegation arrangements, formal sub-advisory or servicing agreements, or other formal and informal arrangements among Registrants and its affiliates. In these circumstances, the registered affiliate with which the client has its investment management agreement remains responsible for the account within the framework of the Advisers Act and/or other applicable regulatory frameworks and the relevant investment management agreement and no additional fees are charged to the client for the affiliates' services except as set forth in the investment management agreement.

Kayne Anderson Rudnick's international assets are sub-advised by Pyrford International, a registered investment advisory firm and a subsidiary of BMO Financial Group, who is a wholly owned subsidiary of the Bank of Montreal. Pyrford's investment strategy is to invest in well-managed companies with a proven record of profitability, a predictable and sustainable franchise, and shareholder-oriented management. Harris Bancorp Inc., a U.S. subsidiary of Bank of Montreal, owns a minority equity position in Virtus Investment Partners, Inc., the parent company of Kayne Anderson Rudnick Investment Management, LLC.

Kayne Anderson Rudnick's Core Plus Fixed Income Strategies, which includes High Yield, Leveraged Bank Loans, All-weather Bond, Corporate Credit, Enhanced Core, Core, Investment Grade, Cash Management, Tax Advantaged Total Return, and the Multi-Sector Fixed Income Strategies, are sub-advised by Newfleet Asset Management, Inc., a registered investment advisory firm and an affiliate of Kayne Anderson Rudnick. This sub-advised relationship is specific only for certain wealth advisory clients.

ITEM 11 — CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

CODE OF ETHICS

To fully protect the interest of our clients, employees, and affiliates, any employee found to engage in improper or unlawful activity faces administrative and legal action. Everyone has a responsibility to ensure that employees are conducting business professionally and are complying with the procedures and policies governing our collective

responsibility. Anyone aware of employees engaged in wrongdoing or improper conduct must immediately report such activity to their supervisor and compliance officer. Failure to do may result in additional action being taken against that individual.

Kayne Anderson Rudnick adopted the Virtus Code of Conduct and Kayne Anderson Rudnick Code of Ethics for Personal Trading, which are designed to prevent and detect possible conflicts of interest with client trades. Compliance with these codes is a condition of employment. All of our employees must acknowledge their terms annually, or as amended. The following highlights some of the provisions of the Virtus Code of Conduct:

VIRTUS CODE OF CONDUCT

Commitment to Shareholders

- Conflicts of interest
- Insider trading and personal trading
- Market timing

Commitment to Customers

- Safeguarding assets
- Other market conduct
- Privacy

Commitment to Corporate Citizenship

- Complying with the legal and regulatory requirements
- Anti-money laundering
- Lobbying and political contributions

Commitment to Employees

- Equal opportunities
- Sexual harassment
- Workplace safety

Commitment to Ethics and Compliance

- Ethical decision-making
- Monitoring Code compliance
- Whistleblower protection

A complete Virtus Code of Conduct is available upon request.

KAYNE ANDERSON RUDNICK CODE OF ETHICS FOR PERSONAL TRADING

The following highlights some of the provisions of the Kayne Anderson Rudnick Code of Ethics for Personal Trading:

- Pre-clearance is required for all non-exempt transactions with respect to which an employee is beneficial owner in order to prevent the employee from buying or selling at the same time as the firm.
- 60 day holding period for covered securities.
- Brokerage provision of duplicate copies of brokerage statements and confirmations to our Compliance Department.

- Employee provision of Initial Holding Reports, Quarterly Transaction Reports, and Annual Certification and Holding Reports, which our Compliance Department reviews for trading activity.
- Requirement that personal transactions be consistent with the Code of Ethics in a manner that avoids any actual or potential conflict of interest.
- Any covered employee not in observance of the above may be subject to discipline.

Kayne Anderson Rudnick or a related person may recommend that clients buy or sell securities or investment products in which Kayne Anderson Rudnick or a related person has some financial interest. Likewise, Kayne Anderson Rudnick or a related person may buy or sell securities that Kayne Anderson Rudnick also recommends to clients.

None of our directors, officers, or advisory persons may buy or sell any security or any option to buy or sell such security, such that they hold or acquire any direct or indirect beneficial ownership as a result of the transaction and that they know at the time of such transaction that is being bought, sold or considered for purchase or sale for a client account, unless:

- They have no influence or control over the transaction from which they will acquire a beneficial interest
- The transaction is non-volitional on their part or the client's
- The transaction is a purchase under an automatic dividend reinvestment plan or pursuant to the exercise of rights issues, pro-rata to them and other holders of the same class of the issuer's securities, or
- They have obtained, in advance approval from someone authorized to grant such approval when circumstances indicate no reasonable likelihood of harm to the client or violation of applicable laws and regulations.

Our officers and employees are encouraged to investment in shares of Virtus Funds that we advise.

We ensure that the investment management and overall business of the firm complies with both our and Virtus policies and applicable U.S. Federal and state securities laws and regulations.

Employees should not accept gifts or other gratuities from clients or individuals seeking to conduct business with Kayne Anderson Rudnick Investment Management without prior authorization from the Chief Compliance Officer or the Chief Operating Officer. However, no authorization is required for gifts valued at less than \$175.00.

Employees may, under certain circumstances, be granted permission to serve as directors, trustees, or officers of outside organizations. Employees must receive approval from the Chief Operating Officer or the Chief Compliance Officer.

Employees are not to divulge or act upon any material, non-public information, as defined under relevant securities laws and in Kayne Anderson Rudnick's Insider Trading Policy.

A complete copy of Kayne Anderson Rudnick's current Code of Ethics is available by sending a written request to Kayne Anderson Rudnick Investment Management, Attn: Compliance, 1800 Avenue of the Stars, 2nd Floor, Los Angeles, California 90067, or by contacting Judith Ridder, Chief Compliance Officer, at (310) 712-2909.

PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS

Kayne Anderson Rudnick may recommend investments in certain Virtus Mutual Funds. Kayne Anderson Rudnick serves as an investment sub-adviser to various Virtus Mutual Funds and is paid advisory fees by these Funds. Under certain circumstances, Kayne Anderson Rudnick may charge separate management fees on client assets which are invested in the Funds sub-advised by Kayne Anderson Rudnick. The management fee rates paid by the Funds may be different than the management fees that are charged on separately managed assets in like strategies.

Employees of Kayne Anderson Rudnick may establish accounts with Kayne Anderson Rudnick. These accounts are managed and administered consistent with non-employee client accounts. Kayne Anderson Rudnick may manage the accounts of its employees and their family member for \$200 per account, per annum.

ITEM 12 — BROKERAGE PRACTICES

Kayne Anderson Rudnick generally determines the broker through whom securities transactions are to be affected. In selecting brokers for a portfolio transaction, Kayne Anderson Rudnick considers, without limitation, the overall direct net economic results to an account. When executing client transactions with unaffiliated broker-dealers, Kayne Anderson Rudnick allocates client transactions to such broker-dealers for execution, in its good faith judgment and in the best interest of the client, taking into consideration available prices and brokerage commission rates, as well as other relevant factors. Relevant factors include: 1) execution capabilities and research, 2) custodial and other services expected to enhance the general portfolio management capabilities of Kayne Anderson Rudnick, 3) the size of the transaction, 4) the difficulty of execution, 5) the operational facilities of the broker-dealer, 6) the risk in positioning a block of securities, 7) the quality of the overall brokerage and research services provided and 8) the value of an ongoing relationship with such broker-dealers.

Kayne Anderson Rudnick is aware of its fiduciary obligation to seek the "best execution" of client transactions. Best execution is a process that entails the efficient placement of orders, clearance, settlement and overall execution quality as well as the price obtained in the transaction. Where Kayne Anderson Rudnick believes that it can cause trades to be effected more efficiently for its clients, Kayne Anderson Rudnick attempts to trade away from the designated broker-dealer,

whether directed or non-directed. A step-out trade is one in which Kayne Anderson Rudnick places the order for a transaction for one or more client accounts with a broker (the “Step-out Broker”), other than the broker that the client has directed Kayne Anderson Rudnick to utilize (the “Directed Broker”). The Step-out Broker reports a net price, which may include a mark-up for executing the transaction. The Directed Broker receives the compensation, if any, shown on the confirmation. This compensation is at whatever commission rate or wrap fee the client has negotiated. Thus, the clients that participate in a step-out transaction may pay different transaction costs. The Directed Broker receives the agreed upon commission or wrap fee and the client obtains the execution at a favorable price. A wrap client may incur an additional “net” trade cost if a trade is made away from their wrap sponsor. For fixed-income trades, the commission is not shown on the trade confirmation, but is reflected in the negotiated price of the bond. Kayne Anderson Rudnick believes that it is able to effect trades away from the designated broker in order to obtain best execution without jeopardizing its business relationships and, in any case, its policy and practice is to act in the best interest of its clients. Directed brokerage clients that do not allow Kayne Anderson Rudnick to participate in step-out trades may pay a higher cost than clients that allow Kayne Anderson Rudnick to participate in step-out trades. Accounts that participate in step-out trades may incur additional transaction costs.

Clients may also establish a bank custodial account and authorize Kayne Anderson Rudnick to use any broker-dealer with whom Kayne Anderson Rudnick has negotiated institutional-level commission rates. These bank custodial accounts may provide access to other bank services of value to the client. In addition, these “free-trading” accounts provide Kayne Anderson Rudnick with a level of flexibility that benefits the client’s ability to participate in block trades. As a result, bank custodial arrangements are usually more attractive to larger, institutional accounts. However, clients should consider the custodial fees charged by a bank custodian in evaluating this alternative.

With respect to its discretionary client accounts, Kayne Anderson Rudnick generally has full authority to determine the broker-dealers through which transactions the discretionary client accounts are executed. Kayne Anderson Rudnick generally selects such broker-dealers and determines the commission rates payable to such brokers-dealers in the manner described above.

DIRECTED BROKERAGE

Kayne Anderson Rudnick accepts direction from clients regarding the brokers to be used for such clients’ accounts. Clients may have existing arrangements permitting them to offset certain administration, accounting, custody, consultant, or other fees in relation to the amount of brokerage transactions handled by a specific broker. At the same time, Kayne Anderson Rudnick may have arrangements to receive investment-related research products or services provided by the same intermediary, which are separate from the clients’ direction, to use a particular broker to execute either all or part of the brokerage transactions from their accounts. Clients must be aware that, in so doing, they may adversely affect Kayne Anderson Rudnick’s ability

to, among other things, obtain volume discounts on bunched orders and/or seek to achieve best execution.

Those direct fee clients who seek advice from Kayne Anderson Rudnick on broker selection have many options available to them. These options include discounted brokerage firms, such as Charles Schwab and Company (“Schwab”) and Fidelity Investments (“Fidelity”), and clients may also choose to become a retail client of the many other unaffiliated brokerage firms with which Kayne Anderson Rudnick conducts business. The commission rates (and the minimum ticket charges) charged by the discount firms are generally more favorable than retail rates normally charged by full service brokerage firms. However, full service firms may offer additional services of value to the client. Commission rates are subject to change from time to time and clients are encouraged to inquire into the rates available to them at the time they engage Kayne Anderson Rudnick, or at any other time.

Other than to satisfy its obligation to seek best execution, Kayne Anderson Rudnick does not have authority to determine the broker-dealer(s) to be used for a wrap account or for a direct fee account when the client has directed Kayne Anderson Rudnick to use a specific broker-dealer.

TRADE AGGREGATION AND ALLOCATION

As part of its effort to obtain best execution, Kayne Anderson Rudnick may aggregate orders, or “block trade,” for several clients. Each client that participates in a block trade receives the average share price and, subject to individually negotiated commission and/or fee arrangements, a pro rata portion of the transaction cost. Because clients have different brokerage relationships, some client accounts may not be eligible to participate in block trades.

When directed trades for selected accounts are placed through a brokerage firm other than that which is executing the block trade, those trades may trail the complete block-trading program. The prices of those securities may have already have been impacted by the prior block trade, so that the cost or sales price of the securities in the directed account will not necessarily be the same as those executed as part of the block. Therefore, performance of the directed account may differ from that of the non-directed accounts.

Clients should be aware that some types of purchase or sale transactions cannot be included in aggregated orders. For instance, trades resulting from the opening and closing of accounts, from contributions or withdrawals from existing accounts, or accounts with highly particularized investment policies or restrictions. In such cases, clients may not receive as favorable executions as they might otherwise receive from aggregated orders.

In cases where a block trade is partially filled, Kayne Anderson Rudnick uses a random method of allocating those shares to the client accounts from which the aggregated order was created. This random methodology is computer driven and fills client accounts with their respective portions of the aggregated order one by one until no shares remain of the block. As a result, some accounts do not receive any

shares from the partially filled order. Subject to the affect of price movements on Kayne Anderson Rudnick's model portfolio, Kayne Anderson Rudnick in most cases will continue to purchase shares, in additional aggregated orders if possible, to obtain shares for the accounts not previously filled. Over time, this random methodology statistically balances the impact of partial fills among clients.

Kayne Anderson Rudnick causes trades to be effected through many broker-dealers that have different operating procedures for different clients requiring varying levels of administrative attention. This means that orders generated as a result of buy and sell programs generally are not communicated at the same time. In some cases, particularly those involving small-cap securities, such programs may require an extended period to complete. Kayne Anderson Rudnick rotates the sequence in which orders are communicated based upon the various types of business to the various broker-dealers. This rotation is computer-driven thus providing equal treatment to clients.

The market price of small-cap securities generally is more volatile than that of more liquid securities, which may adversely affect the price that a client pays for or recovers upon the sale of a small-cap security. Small-cap securities may be difficult to dispose of at a fair price or rapidly when a client terminates an account.

FIXED-INCOME PRACTICES

Fixed-income trade allocations are usually determined prior to the placement of a trade. However, in those circumstances where an order is only partially filled or when a security is acquired prior to determining the allocation, the trader allocates the trade in a manner that is fair and equitable to all affected accounts.

Securities for fixed-income discretionary accounts are traded either through competitive bids/offers, by comparison of bids/offers, or through comparison of price level with levels seen in the market. In the case of broker directed trades, every effort is made to bring the trade price in-line with the institutional market.

When purchasing municipal bonds for discretionary accounts, comparisons are made between the bond being offered and bonds with similar characteristics trading in the market at the time. Comparisons are made based on credit name, structure (e.g., coupon, maturity, and call/put options), underlying credit rating, credit enhancement, municipal sector, etc. When selling municipal bonds for broker discretionary accounts, multiple bids are sought. In the case of broker directed trades, every effort is made to bring the trade price in line with the institutional market. On broker directed accounts where the client or broker does not allow the Adviser to step-out the trades, the client could incur a higher cost than broker discretionary accounts.

RESEARCH AND OTHER SOFT DOLLAR BENEFITS

Subject to applicable law and regulation, Kayne Anderson Rudnick directs brokerage commissions for research and brokerage services. At least annually, Kayne Anderson Rudnick considers the amount and

nature of research and brokerage services provided by the brokers as well as the extent to which such services are relied upon. The actual allocation of brokerage business may vary from year to year, depending on Kayne Anderson Rudnick's evaluation of all applicable considerations.

Subject to Section 28(e) of the Securities Exchange Act of 1934, Kayne Anderson Rudnick may pay a broker a commission in excess of that which another broker might have charged for effecting the same transaction, in recognition of the value of the brokerage and research services provided by or through the broker. Kayne Anderson Rudnick may have an incentive to select or recommend a broker-dealer based on its interest in receiving research or other products or services rather than in the clients' interest in receiving most favorable execution. Kayne Anderson Rudnick believes that it is important to its investment decision making processes to have access to independent research. Research furnished by brokers may be used to service any or all of Kayne Anderson Rudnick's clients and may be used in connection with accounts other than those making the payment to the broker providing the research, as permitted by Section 28(e). Only brokerage commissions from certain client accounts are used to pay for the research services furnished by brokers. Kayne Anderson Rudnick may use these research services to service all of its accounts and not just the account whose transactions paid for the research services. It is possible that the accounts whose transactions generate brokerage commissions that are used to pay some of Kayne Anderson Rudnick's research obligations may not benefit in any way from this specific research.

Brokerage and research services provided by brokers falling within the Section 28(e) safe harbor may include, but are not limited to, providing information regarding the economy, industries, sectors of securities, individual companies, statistical information, technical market action, pricing and appraisal services, risk-measurement analysis, and performance analytics. Such research services are received primarily in the form of written reports, telephone contact and personal meetings with securities analysts or company management. In addition, such research services may be provided in the form of access to various computer-generated data and access to conferences and seminars related research.

In some cases, research services are generated by third parties but are provided to Kayne Anderson Rudnick by or through brokers. Kayne Anderson Rudnick uses a variety of securities quotation hardware and software for day-to-day portfolio management of some or all of its accounts. Most of the services include additional statistics, analytical tools, and news used solely for portfolio management purposes. The following describes the primary products and services currently provided through soft dollar arrangements. The ratio of commissions necessary to pay for these services (soft dollar ratios) is as follows:

Donaldson & Co.	Bloomberg	Ratio 1.25:1
	Factset	Ratio 1:25:1
Instinet	Reuters Knowledge	Ratio 1.20:1

Kayne Anderson Rudnick has established a Best Execution Committee, consisting of members from Administration, Trading, Portfolio Management, and Compliance. The Best Execution Committee reports to the Investment Compliance Committee. The Best Execution Committee generally meets quarterly to review brokerage allocation activity of the firm, to identify the quality of execution and settlement services provided, and the value to client portfolios of the purchased product or service. All soft dollar arrangements are subject to the review and concurrence of the Investment Compliance Committee.

SUGGESTION OF BROKERS

A client may instruct Kayne Anderson Rudnick to use a specified broker-dealer for such client's account, although Kayne Anderson Rudnick reserves the right not to accept such instruction in cases where it does not have a working relationship with the designated broker-dealer. However, the client should generally be aware that, where it directs Kayne Anderson Rudnick to use a specific broker-dealer: (1) A higher commission rate (or fees in the case of wrap program accounts) may be paid by such client, in part because of additional services which may be available from such broker-dealer as well as Kayne Anderson Rudnick's inability to negotiate the commission rate or obtain volume discounts when the client's transaction is combined with those of other clients in a block trade; and (2) the execution of trades for the client by the designated broker-dealer could result in failure to receive the best execution in some transactions. Kayne Anderson Rudnick is generally required by wrap program sponsors to direct trades for client accounts in such programs to such sponsors or their affiliates.

A client who directs Kayne Anderson Rudnick to use a particular broker-dealer, including a client who directs use of a broker-dealer that also serves as a custodian (whether or not recommended by Kayne Anderson Rudnick), should consider whether commissions, expenses, execution, clearance and settlement charges, and custodial fees, if applicable, is comparable to those otherwise obtainable by Kayne Anderson Rudnick.

Kayne Anderson Rudnick may benefit by receiving new client referrals from Schwab, Fidelity, or other broker-dealers who earn commissions on trades for accounts of existing clients of Kayne Anderson Rudnick, and, as a result, a conflict may arise between Kayne Anderson Rudnick's interest in such referrals and its obligation to seek the best execution of client trades.

CROSS TRANSACTIONS

Where appropriate, Kayne Anderson Rudnick may engage in inter-account transactions or cross transactions with eligible advisory accounts and will comply with the applicable disclosure and consent

requirements associated with such transactions under the Investment Advisers Act of 1940. To reduce transaction costs and promote trading efficiency for mutual fund clients, Kayne Anderson Rudnick may engage in inter-account transactions consistent with procedures adopted pursuant to Rule 17a-7 under the Investment Company Act of 1940.

ITEM 13 — REVIEW OF ACCOUNTS

A record-keeping account is established and maintained on Kayne Anderson Rudnick's portfolio accounting system for each managed client account, with the exception of sub-advisory accounts as explained below. Among other pertinent data, information concerning the client's investment objectives and guidelines is maintained as part of the account records. This information identifies such matters as overall investment strategy, asset allocation targets and cash distribution requirements, as well as any special portfolio restrictions. In the case of wrap programs where Kayne Anderson Rudnick serves as investment sub-adviser, the program sponsor maintains and provides Kayne Anderson Rudnick with electronic access to the information contained in client record-keeping accounts.

Generally, each account is invested using an approved model portfolio for the chosen strategy. Some direct client accounts are invested with adjustments to the model portfolio where directed by the client because of tax and other special circumstances. As a result, such accounts may be weighted differently or hold securities not in the model portfolio. Once initially invested, the account is continuously monitored for any drift or variance from the model portfolio weightings and client guidelines. This process is conducted by our portfolio management associates, wrap traders, and portfolio managers. The number of accounts reviewed by each person varies based on the type of account.

Kayne Anderson Rudnick manages accounts on a discretionary basis and has full authority in determining which securities are purchased and sold. Kayne Anderson Rudnick normally sells some or all of the securities in a client account after the initial receipt of the account or the deposit of additional securities into the account. Some securities are normally retained in the account to the extent that they are included in Kayne Anderson Rudnick's model holdings for such an account or if so requested by the client. The client is responsible for any tax liabilities which result from such transactions.

Generally, for direct fee accounts, Kayne Anderson Rudnick is available to meet with the client at least once a year or, in some cases, as often as quarterly if requested by the client. Account reviews are conducted with clients by the client service representatives, often with the assistance of the portfolio managers. Wrap fee accounts (both advisory and sub-advisory) have access to the same personnel through their respective program sponsors or they may contact us directly at any time. Direct accounts may be provided (i) quarterly (in some cases, monthly) reports identifying holdings and performance and (ii) if taxable, annual reports identifying realized gains/losses, and interest and dividends received. Based upon the sponsor's preference,

generally wrap program accounts (other than sub-advisory accounts) are provided quarterly reports identifying holdings and, for some programs, performance.

ITEM 14 — CLIENT REFERRALS AND OTHER COMPENSATION

Kayne Anderson Rudnick maintains contractual agreements with unaffiliated parties who refer clients to Kayne Anderson Rudnick for compensation. Such referral sources may be registered investment advisers. All referral agreements are made in writing pursuant to Rule 206(4)-3 of the Investment Advisers Act of 1940. Kayne Anderson Rudnick has entered into a solicitation agreement with Allan Rudnick, a founder of Kayne Anderson Rudnick, who refers clients to Kayne Anderson Rudnick for compensation. This referral agreement is made in writing pursuant to Rule 206(4)-3 of the Investment Advisers Act of 1940. Additionally, Kayne Anderson Rudnick has entered into a cross solicitation agreement with Kayne Anderson Capital Advisors, L.P., a former affiliate, whereby they agree to engage each other to solicit investment advisory business. This referral agreement is made in writing pursuant to Rule 206(4)-3 of the Investment Advisers Act of 1940. While the specific terms of each agreement may differ, the referral source typically receives a percentage of the management fees received by Kayne Anderson Rudnick from accounts referred by the referral source. Referral source compensation is not a factor in determining, nor does it adversely affect, the fee Kayne Anderson Rudnick charges for its investment management services.

As a condition of a wrap program, the wrap sponsor may be directly or indirectly registered as an investment adviser under the Investment Advisers Act of 1940. Such wrap sponsors may request the firm to directly or indirectly pay for some of a wrap sponsor's marketing and advertising expenses, which also can include certain incentive programs. To this extent, Kayne Anderson Rudnick could be deemed to be sharing its fees with another investment firm.

Kayne Anderson Rudnick also pays recordkeeping service fees to intermediaries who sponsor platforms through which their clients may purchase shares in Virtus Mutual Funds. These fees are based on a percentage of assets received and, therefore, could be deemed to be a management fee-sharing arrangement as well.

ITEM 15 — CUSTODY

Clients should receive at least quarterly statements from the broker dealer, bank, or other qualified custodian that holds and maintains client investment assets. Kayne Anderson Rudnick urges clients to carefully review such statements and compare such official custodial records to the account statements that Kayne Anderson Rudnick may provide to clients. Kayne Anderson Rudnick's statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

ITEM 16 — INVESTMENT DISCRETION

Kayne Anderson Rudnick has full discretion to buy and sell securities without prior client approval under its investment advisory contract with the client. (Kayne Anderson Rudnick holds a limited power of attorney to act without prior consultation). Kayne Anderson Rudnick exercises its investment discretion consistent with its investment philosophy, as well as any investment guidelines or restrictions imposed by client and accepted by Kayne Anderson Rudnick. Kayne Anderson Rudnick does not maintain actual custody of any client assets. Kayne Anderson Rudnick does not advise clients for a fee with respect to (i) holdings outside their managed accounts or (ii) holdings in their managed accounts which are designated as unsupervised at the direction of or with notice to the client.

CLASS ACTIONS

A securities "class action" lawsuit is a civil suit brought by one or more people ("Plaintiffs") on behalf of themselves and others who have the same grievance against the issuer of a certain security.

When a class action is filed, a written notice of filing or settlement is prepared (the "Notice"), which outlines the reasons for the lawsuit, the parameters for qualification as a member of the class and certain legal rights that need to be considered before becoming a member of the class (i.e., participating in the settlement). In addition, the Notice contains instructions issued by the court to brokers/dealers and/or other nominees (e.g., custodians) who receive the Notice and who hold the security on behalf of the owner/beneficiary, to either (1) provide the Claims Administrator (usually the attorney for the Plaintiffs) with the name and address of each such owner/beneficiary so the Claims Administrator can send the Notice directly to such owner/beneficiary, or (2) request additional copies of the Notice and send the Notice directly to the owner/beneficiary.

In some cases, in addition to the owner/beneficiary, Kayne Anderson Rudnick may also receive notification of a class action. Since, as described above, the broker/dealer, nominee, or Claims Administrator is responsible for sending the Notice to the owner/beneficiary of the security, and Kayne Anderson Rudnick does not hold securities on behalf of its clients, Kayne Anderson Rudnick does not send any additional notification to its clients.

Because each class action involves certain legal rights that must be considered by the owner/beneficiary of the security before becoming a member of the class, Kayne Anderson Rudnick generally cannot instruct, or give advice to its clients on whether or not to participate as a member of the class.

In addition, since (1) the client, not Kayne Anderson Rudnick, is the owner/beneficiary of the securities that Kayne Anderson Rudnick purchases in a client's account, and (2) Kayne Anderson Rudnick does not have any knowledge of whether or not the client purchased the security in any account not managed by Kayne Anderson Rudnick, Kayne Anderson Rudnick cannot automatically file a claim on the client's behalf in any class action. Generally, the client will be asked

to contact their custodian for transaction information, however, if the client requests additional assistance, Kayne Anderson Rudnick provides the client with any transaction information pertaining to the client's account that may be helpful and/or needed in order for the client to file a proof of claim in a class action.

ITEM 17 — VOTING CLIENT SECURITIES

SUMMARY OF PROXY VOTING POLICY

Kayne Anderson Rudnick has adopted and implemented policies and procedures that we believe are reasonably designed to ensure that proxies are voted in the best interest of our clients, in accordance with our fiduciary duties and SEC rule 206(4)-6 under the Investment Advisers Act of 1940.

The principles for voting proxies are as follows:

1. The firm votes all proxies to, in its opinion, maximize shareholder value, which is defined as long-term value through dividend and price appreciation. In addition, the firm's investment philosophy is to purchase "Quality" companies for the portfolios of its clients. One of the four main criteria for "Quality" is excellence in management. Hence, the firm tends to vote non-shareholder-value issues in alignment with management's recommendations, if there is no conflict with shareholder value. For example, "Poison Pills" and other anti-takeover measures are not supported, even if recommended by management.
2. To assist in analyzing proxies, Kayne Anderson Rudnick subscribes to Institutional Shareholder Services ("ISS"), an unaffiliated third party corporate governance research service that provides in-depth analyses of shareholder meeting agendas and vote recommendations. Kayne Anderson Rudnick fully reviews and approves the ISS Proxy Voting Guidelines and follows their recommendations on most issues brought to a shareholder vote. In special circumstances, where a Kayne Anderson Rudnick research analyst or portfolio manager believes that any ISS recommendation would be to the detriment of our investment clients, Kayne Anderson Rudnick will override an ISS recommendation. Two members of the Investment Compliance Committee can approve an override. Additionally, Kayne Anderson Rudnick utilizes ISS to vote proxies on its behalf, per the guidelines discussed above.
3. Absent any special circumstance, the Proxy Voting Guidelines are followed when voting proxies.
4. Kayne Anderson Rudnick may occasionally be subject to conflicts of interest in the voting of proxies because of business or personal relationships it maintains with persons having an interest in the outcome of specific votes. Kayne Anderson Rudnick and its employees may also occasionally have business or personal relationships with other proponents of proxy proposals, participants in proxy contests, corporate directors, or

candidates for directorships. If, at any time, the responsible voting parties become aware of any type of potential conflict of interest relating to a particular proxy proposal, they will promptly report such conflict to the Chief Compliance Officer. Conflicts of interest are handled in various ways depending on the type and materiality.

The Proxy Voting Policy and Guidelines are posted on the public section of the firm's website, www.kayne.com. For a copy of the policy or guidelines and inquiries regarding how a specific proxy proposal was voted, please contact Judith Ridder at (310) 712-2909.

ITEM 18 — FINANCIAL INFORMATION

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about Kayne Anderson Rudnick's financial condition. Kayne Anderson Rudnick has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has not been the subject of a bankruptcy proceeding.

ITEM 19 — MISCELLANEOUS

COST BASIS REPORTING

The Emergency Economic Stabilization Act of 2008 contains new requirements for brokerage firms and mutual fund companies regarding customer statements and Internal Revenue Reporting. This Act requires brokers to report adjusted basis for taxable accounts to the IRS and taxpayers via Form 1099-B beginning in 2011. While Kayne Anderson Rudnick will strive to match the custodian's method to calculate gains and losses, it can only be on a best efforts basis. The custodian's statements are the client's official books and records of their holding and the clients should rely solely on the information provided by their custodian. Clients should consult with their tax advisor for additional assistance.

NOTIFICATIONS OF ADDITIONS OR WITHDRAWALS

Clients should notify Kayne Anderson Rudnick in writing and in advance each time funds or securities are deposited to, or withdrawn from, a client's account.

PRIVACY NOTICE	
FACTS	WHAT DOES KAYNE ANDERSON RUDNICK INVESTMENT MANAGEMENT, LLC DO WITH YOUR PERSONAL INFORMATION?
WHY?	Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.
WHAT?	<p>The types of personal information we collect and share depend on the product or service you have with us. This information can include:</p> <ul style="list-style-type: none"> ◆ Social Security Number and investment experience ◆ Account balances and assets ◆ Risk tolerance and transaction history <p>When you are no longer our customer, we continue to share your information as described in this notice.</p>
HOW?	All financial companies need to share customer personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customer's personal information; the reasons Kayne Anderson Rudnick Investment Management, LLC (KAR) chooses to share; and whether you can limit this sharing.

REASONS WE CAN SHARE YOUR PERSONAL INFORMATION	DOES KAR SHARE?	CAN YOU LIMIT THIS SHARING?
For our everyday business purposes – such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus	Yes	No
For our marketing purposes – to offer our products and services to you	No	We do not share
For joint marketing with other financial companies	No	We do not share
For our affiliates' everyday business purposes – information about your transactions and experiences	Yes	No
For our affiliates' everyday business purposes – information about your creditworthiness	No	We do not share
For nonaffiliates to market to you	No	We do not share

QUESTIONS?	CALL (310) 712-2909 OR GO TO WWW.KAYNE.COM
------------	---

WHO WE ARE**Who is providing this notice?**

Kayne Anderson Rudnick Investment Management, LLC (KAR)

WHAT WE DO**How does KAR protect my personal information?**

To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings.

How does KAR collect my personal information?

We collect your personal information, for example, when you

- Open an account
- Seek advice about your investments
- Enter into an investment advisory contract
- Tell us about your investment or retirement portfolio
- Give us your contact information

Why can't I limit all sharing?

Federal law gives you the right to limit only

- Sharing for affiliates' everyday business purposes- information about your creditworthiness
- Affiliates from using your information to market to you
- Sharing for nonaffiliates to market to you

DEFINITIONS**Affiliates**

Companies related by common ownership or control. They can be financial and nonfinancial companies.

- Our affiliates include financial companies such as Virtus Investment Partners, Duff & Phelps Investment Management Co., Virtus Investment Advisors Inc., SCM Advisors, LLC, Euclid Advisors, LLC, Newfleet Asset Management, Inc., VP Distributors, Inc., and Zweig Advisers LLC.

Nonaffiliates

KAR does not share with nonaffiliates so they can market to you.

Joint Marketing

KAR does not jointly market.